

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
STATEMENT OF INVESTMENT POLICY**

**FOR  
SECURITIES LENDING MONITORING**

**February 19, 2002**

*This Policy is effective immediately upon adoption and supersedes all previous securities lending monitoring policies.*

**I. PURPOSE**

This document sets forth the investment policy ("the Policy") for Securities Lending Program ("the Program"). The design of this Policy ensures that investors, managers, consultants, or other participants selected by the California Public Employees' Retirement System ("the System") take prudent and careful action while managing the Program. Additionally, use of this Policy provides assurance that there is sufficient flexibility in controlling investment risks and returns associated with the management and oversight of the Program.

**II. STRATEGIC OBJECTIVES**

Generating incremental income by lending securities to qualified borrowers is the strategic objective of the System's Program. Borrowers provide collateral in exchange for the right to borrow securities. Collateral investment shall follow the System's Guidelines and Procedures.

The principal objectives for securities lending are liquidity and preservation of capital. To minimize the incentive, which violates guidelines established for this Program, no specific rate of return is expected from the Securities Lending Program. Rather, the System expects strict conformity with its guidelines and shall let market mechanics determine the demand for securities and resulting incremental income. It is intended that the Securities Lending Portfolio generate income primarily from rebates on loans and secondarily through a moderate risk collateral investment strategy.

**III. RESPONSIBILITIES**

A. The **System's Investment Committee ("the Investment Committee")** shall have the following responsibilities and duties:

1. Approving Securities Lending Monitoring Policy and Securities Lending Guidelines.

2. Reviewing Securities Lending Program performance annually with the Staff and the General Pension Consultant.
  3. Approving portions of the portfolio that may be lent, upon recommendation from Staff.
  4. Reviewing the individual agent annually with Staff and Securities Lending Consultant.
- B. The **System's Investment Staff's ("the Staff")** duties include, but are not limited to, the following:
1. Approving updates to the broker/borrower list and lending limits as necessary.
  2. Reporting to the Investment Committee annually about the performance and compliance of the Securities Lending Program.
  3. Monitoring lending agents' or principal borrowers compliance or both with Program guidelines on an ongoing basis and follow the violation procedures if a violation occurs.
  4. Reviewing the Securities Lending Guidelines annually and recommending changes to the Investment Committee.
  5. Reviewing and evaluating the quarterly reports, from the lending agents or principal borrowers or both. Designing and requesting changes to the quarterly report format as needed.
  6. Overseeing the resolution of sell-fail disagreements between lending agents or principal borrowers or both and investment managers.
  7. Making recommendations concerning which portion of the CalPERS portfolio should be lent.
- C. Lending Agents or Principal Borrowers:
1. Annually, the lending agent or principal borrower or both shall present the System with a list of all potential borrowers and the applicable credit exposure. CalPERS reserves the right to eliminate or add borrowers and adjust credit limits made to each borrower.
  2. The lending agent or principal borrower or both shall immediately notify the Staff and Securities Lending Consultant if there is a violation of the Securities Lending Guidelines.

3. The lending agent or principal borrower or both shall provide a quarterly report (summarizing monthly information) including, but not limited to, the following information:
  - a. A statement of compliance with Securities Lending Guidelines, noting any securities in the collateral portfolio that were downgraded.
  - b. The daily lending activity and income earned, an average volume of securities lent by broker, asset category, and manager account, summarized for each month during the quarter (including year-to-date statistics).
  - c. List of portfolio holdings, with portfolio-level statistics, for each month-end, including market values, cost, maturity, duration, yield-to-maturity, and credit quality.
  - d. Sell-fail statistics for each month, including number of fails, claim amounts, claims as a percent of lending income, and claims as a percent of loan balances.
  - e. The monthly net income earned as a percentage of the average loan balances, designed to measure the return on loans by asset category.
  - f. The net income earned as a percentage of the lending asset base (defined in “h” below) in each category.
  - g. The average monthly gross spread in each asset category. The gross spread shall be calculated as the yield earned on the collateral portfolio minus the rebate paid to the broker-dealer, which represents the earnings available for dividing between the lending agent or principal borrower or both and the System.
  - h. The average market value of the assets available for lending each month (lending asset base) by asset category.
  - i. The average monthly loan balances as a percentage of the average monthly lending asset base in each category.
  - j. The monthly average maturity of the collateral portfolio and the broker loan portfolio.
  - k. A review of the loan spreads and volume available in the market segments in which the System lends.

#### D. Delegations

Staff may, subject to analysis, documentation and fiduciary responsibility, and upon approval from the Senior Investment Officer (SIO), Fixed Income Unit and the Chief Investment Officer, revise the following areas:

1. Collateralization levels,
2. Counterparty limits for the agent and principal borrower programs,
3. Permissible securities,
4. Maturity, duration, and credit quality of permissible securities,
5. Diversification for individual issuers and sectors, and
6. Internal cash collateral allocation limits.

#### **IV. GENERAL**

- A. This Policy contains a Glossary of Terms in in Part IX. of this document.
- B. Investors, managers, consultants, or other participants selected by CalPERS shall make all calculations and computations on a mark-to-market or amortized cost method, depending on market convention. Securities for which market quotations are readily available shall be accounted for using the mark-to-market method. When no market quote is available, the amortized cost method shall be used for determining the security's value.

#### **V. LENDING GUIDELINES**

- A. Securities eligible for loan must meet the following criteria:
  1. The lending agent may only lend securities and the principal borrower may only borrow securities of issuers headquartered in countries contained in the System's Approved Countries for Equity Lending and Fixed Income Lending, copies of which are attached to this document as Exhibit A. The Investment Committee must approve additions to this list.
  2. Securities Lending in International Markets is only permissible if the following conditions are met:
    - a. Local regulations permit securities lending.

- b. A central depository exists providing free deliveries without penalties.
  - c. Settlement guidelines allow for avoidance of transaction delivery failures.
  - d. Collateral value is received before or simultaneously with the movement of loaned securities.
  - e. The lending of securities does not adversely affect the fund's tax liabilities.
3. Staff shall inform the lending agent or principal borrower or both in writing from which accounts they may lend securities.

**B. Collateralization**

1. Initial Margin: The proper amount of collateralization shall be market value times the appropriate percentage for each security type:
- a. Domestic securities - 102%
  - b. Matching currency investment for Japan, Germany, United Kingdom, France, Italy, and Canada - 102%
  - c. US Dollar investment for Japan, Germany, United Kingdom, France, Italy, and Canada - 105%
  - d. All other international securities - 105%
2. Maintenance Margin: Loan collateral below these specified maintenance levels must be adjusted within 24 hours and before the securities being re-lent to the same borrowers.
- a. The maintenance margin is 102% for securities with an initial margin of 102%.
  - b. The maintenance margin is 105% for securities with an initial margin of 105%.
3. Non-material Margin Call: Despite the maintenance margin percentages above, non-material margin calls of \$100,000 or less need not be made as long as collateral is 101.5% or more.

**C. Counter Party**

Lending Agents

1. Lending agents are permitted to lend securities only to counterparties specified on the CalPERS "List of Approved Borrowers" (See Exhibit B). The CalPERS' Investment Staff must approve additions to this list. The qualification and lending dollar limits specified by CalPERS follows for each individual counterparty:

Broker	Credit Rating	Individual Counterparty Lending Limit <sup>1</sup>
Domestic brokers	A1/P1	\$2.0 billion
	Split-rated (A1/P2 or A2/P1)	\$1.5 billion
	A2/P2	\$1.5 billion
Brokers in Exhibit B		\$1.5 billion
Foreign brokers	A1/P1	\$1.5 billion
	Split-rated (A1/P2 or A2/P1)	\$750 million
	A2/P2	\$750 million
Individual counterparty	see above	\$200 million or 25% of portfolio, whichever is greater

<sup>1</sup> Market convention plus accrued interest.

2. If the percentage of loans to an individual counterparty becomes greater than 25% of the portfolio, it must be back in compliance within five business days and shall be considered a violation if the total percentage of securities lent to any individual counterparty exceeds 30% of the portfolio at any time, it shall be considered a violation, regardless of the cause.

#### Principal Borrowers

1. Credit Tiers

Principal Borrowers must be rated A1/P1 or better and meet certain other financial criteria as determined by CalPERS. Principal Borrowers must also verify they have minimum total assets of \$15 Billion, which will be monitored annually thereafter.

2. Diversification

CalPERS total securities lending exposure is limited to \$4 Billion per A1/P1 principal counterparty. If CalPERS assets on loan through principal programs with any one borrower should exceed the established limit, exposure must be returned to compliance within five business days. No additional lending to that counterparty may take place until the principal exposure is returned below the established limit.

## **VI. COLLATERAL GUIDELINES**

The System established the following investment guidelines. The lending agent or principal borrower or both shall follow these guidelines explicitly. If, at any time, the collateral portfolio violates these guidelines (e.g., a credit rating downgrade), the lending agent or principal borrower or both shall immediately notify CalPERS in writing. The lending agent or principal borrower or both shall also notify the Principal Investment Officer of Fixed Income who shall determine if immediate action is necessary to bring the portfolio into compliance.

A. Permissible Securities

1. Money market instruments, including obligations of the U.S. Government and its agencies, and domestic money market instruments (commercial paper, bank time deposits, certificates of deposit, and banker's acceptances). Non-domestic money market instruments must be on CalPERS' Lists of Approved Countries for Equity Lending and Fixed Income Lending, copies of which are attached to this document as Exhibit A.
2. Repurchase Agreements and Tri-Party Repurchase Agreements (repos and tri-party repos) collateralized at 102% by debt obligations of the U.S. Government or its agencies (this does not include mortgage-backed securities), Repurchase agreements and Tri-Party Repurchase agreements collateralized at 105% by A3/A- or higher rated corporate debt or AAA asset-backed securities or commercial paper with a minimum A1/P1 rating. Repurchase agreements and Tri-Party Repurchase agreements must be marked-to-market daily. Repurchase agreements and Tri-Party Repurchase agreements must be with counter-parties in Exhibit C. Mortgage-backed securities are prohibited. Collateral for Tri-party repurchase agreements must be a minimum of \$1 million in size.
2. Notes, bonds, and debentures issued by the U.S. Government and its agencies, U.S. corporations, Canadian, supranational, and foreign sovereign entities subject to the maturity and credit quality limitations specified in Section V, C (Credit Quality).
3. Money market funds as defined under SEC Regulation 270.2a-7.
4. Asset-backed securities rated AAA whose underlying loans or receivables are against automobiles, recreation vehicles, stranded assets, credit cards, or equipment loans and leases.
5. Floating rate and variable rate securities, subject to maturity, credit quality, and reset limitations specified below. The Cash Collateral Investment Portfolio can invest in adjustable rate securities tied to LIBOR, Fed Funds, Treasury Bills, and Commercial Paper Indices. Adjustable rate securities, which are specifically excluded include, but are not limited to, the following:

- a. “Inverse floaters,” “leveraged floaters” and any securities whose interest rate reset provisions are based on a formula that magnifies changes in interest rates.
  - b. “Constant Maturity Treasury (CMT) floaters” and securities whose interest rate reset provisions are tied to long-term interest rates so that a change in the slope of the yield curve could result in the value of the instrument falling below par.
  - c. “Capped floaters,” “range floaters,” and securities on which interest is not paid above a certain level or cease paying any interest when a certain level is reached.
  - d. “Dual index floaters” and securities whose interest reset provisions are tied to more than one index so that a change in the relationship between these indexes may result in the value of the instrument falling below par.
  - e. “Cost of Funds Index (COFI) floaters,” “prime floaters,” and securities whose interest rate reset provision is tied to an index materially lagging short-term interest rates.
7. To help mitigate currency risk, non-U.S. G7 currency may be received as payment for loaned securities of the corresponding G7 country. The currency must be invested in the respective G7 country’s government security and in compliance with the System’s–Securities Lending collateral investment guidelines.
  8. Non-U.S. sovereign debt is acceptable as payment for G7 loaned securities provided the debt is the same country as the loaned security. The investment must be in accordance with the System’s collateral investment guidelines.
  9. Unless specifically permitted in this Policy, investment in derivative securities (See Section V, A2, A5, and A6) is prohibited.

**B. Maturity and Duration**

1. The average life of the collateral investment portfolio shall not differ from the average life of the outstanding loans by more than 60 days.
  - a. For securities with periodic principal payments, the weighted-average days to maturity shall be calculated from the evaluation date to the date of the security’s average life.
  - b. The portfolio weighted-average days to maturity shall be calculated from the evaluation date to the date of the next coupon reset for floating rate securities.



- c. Loans on an open basis (i.e., can be called by either party on one day notice) are considered one day instruments.
- 2. To maintain liquidity, a minimum of 10% of the portfolio must be invested in overnight instruments.
- 3. These guidelines are intended to eliminate negative convexity risk (i.e., contraction or extension risk). The lending agent or principal borrower or both shall invest in the collateral portfolio with full spirit of this intention.
- 4. Fixed-rate notes, bonds, debentures, and asset-backed securities shall have a projected maximum average life of 14 months. ABS securities must have a final stated maturity that does not exceed five years.
- 5. Floating rate and variable rate securities may not exceed a term of three years fixed from the date of purchase to final stated maturity. Floating rate, asset-backed securities shall have a projected maximum average life of three years and a final stated maturity that does not exceed five years. The interest rate reset on each of these securities must occur no less frequently than every three months.

For floating rate asset-backed securities only, the final stated maturity may exceed five years when the prepayment speed is set to zero and the average life is three years or less.
- 6. Repurchase agreements, excluding U.S. Treasury or agencies, shall have a maximum term of one month. Repo agreements with U.S. Treasury or agencies shall have a maximum term of three months.
- 7. Money Market Mutual Funds typically mature in one day.

- C. Credit Quality: Securities must be rated at the required quality level by both Standard & Poor's and Moody's. For a credit-enhanced issue for purchasing eligibility, the provider of the enhancement must be an AAA-rated financial institution. The minimum credit rating per instrument category is as follows:

Security	Minimum Credit Rating
Asset backed securities	Aaa/AAA
Money Market Instruments	A1/P1
Non-domestic US dollar denominated securities	A1+/P1
Domestic corporate notes, bonds and debentures	A2/A
Domestic financial notes, bonds and debentures	A1/A+
Canadian corporate notes, bonds and debentures	A1/A+
Floating and variable rate securities	
Final stated maturities two years or less	A2/A
Final stated maturities more than two years	AA2/AA
Supranational and foreign (excluding Canadian)	Aaa/AAA
Sovereign issues	A1/P1
Canadian government and provincial issues	A1/A+

Note: Split-rated securities are considered to have the lower of the two ratings.

Sector <sup>3,4</sup>	Acceptable % of Collateral Pool
Any one issuer except US government & agencies	< = 5% or \$100 million, whichever is greater <sup>1</sup>
Any overnight loan to non-U.S. government issuer	< = 10% or \$400 million, whichever is greater
Zero-coupon government issues <sup>2</sup>	< = 15%
Any one corporate sector, except financial sector	< = 25%
Corporate financial sector	< = 50%
Single repo broker	< = 25% or \$300 million of aggregate repo balance, <u>whichever is greater</u>
Corporate debt and commercial paper	< = 50%
Asset-backed securities	< = 50%
Floating rate or variable rate securities	< = 50%

<sup>1</sup>Except US Treasury and agencies carrying explicit government guarantee

<sup>2</sup>US T-bills, commercial paper, US agency discount notes are not considered zero-coupon

<sup>3</sup>Investment in securities issued by broker dealers is specifically prohibited

<sup>4</sup>Illiquid securities are prohibited. Illiquid securities are issues not salable without material impact on sale proceeds

D. Diversification: Following are investment limits for individual issuers and sectors:

1. In the event an issuer exceeds 5% of the portfolio due to the sale of assets on loan (see Section VI-Violation Reporting), the collateral must return to compliance within five business days. It shall be considered a violation if the issuer ever comprises 5.5% of the portfolio or greater (if the total issuer obligations are more than \$100 million).

If an overnight, non-US government issuer exceeds 10% of the portfolio due to the sale of assets on loan (see Section VI-Violation Reporting), the collateral must return to compliance within five business days. It shall be considered a violation if the issuer ever comprises 10.5% of the portfolio or greater (if the total issuer obligations are more than \$400 million).

2. If a repo subsequently becomes greater than 25% of the aggregate repo balance, it shall be considered a violation, unless the increase in percent of repos is caused by a sale of securities on loan. In this scenario, the repo balance must be back in compliance within five business days and shall be considered a violation if the total amount of repos invested with that counterparty exceeds 30% at anytime, regardless of the cause.

## VII. Cash Collateral Allocation

CalPERS has the ability to allocate Securities Lending cash collateral to a variety of internal programs through a third party securities lending cash collateral manager. The returns of the internal programs will be commensurate with the levels of returns received with outside securities lending cash collateral opportunities, all of which fall within the collateral guidelines.

- A. Prior to receiving any cash collateral, the System's program must provide an internal indemnification to the Securities Lending Program. The internal indemnification will be in the form of a Memorandum of Understanding (MOU) between the Securities Lending Program and the internal program.
- B. All investments in a System's program must fall within the current maturity and duration constraints.
- C. Cash collateral allocation to internal programs will be limited to the lesser of \$500 million or 20% of the average outstanding cash collateral balance for the Securities Lending Program. The average outstanding cash collateral balance will be calculated on the first business day of each month using the previous month's daily balances. If the newly calculated average outstanding

cash collateral balance decreases, the internal programs shall return the excess cash collateral by the sixth business day of the month.

## **VIII. VIOLATION REPORTING**

A. The violation reporting process shall be as follows:

1. The lending agents or principal borrower or both shall report all violations to the Staff immediately by telephone, followed by a written notification describing the violation.
2. The Staff shall report orally, or in writing, all violations immediately to the Senior Investment Officer.
3. The Senior Investment Officer shall immediately report orally, or in writing, any violation verbally to the Chief Investment Officer and the Assistant Executive Officer.
4. As a follow-up to the verbal report, the Staff shall prepare a written report of any violation within a time period not exceeding 30 days.
5. The Chief Investment Officer shall determine the appropriate means of further reporting based on his or her judgment of the magnitude, sensitivity and severity of the violation.
  - a. All violations shall be reported to the Investment Committee as part of a quarterly report agenda item on the Investment Committee's regular agenda. The report shall coincide with the regular quarterly reports of the CalPERS general pension consultant.
  - b. Depending on the violation, and at the discretion of the Chief Investment Officer, reporting may also be made to the Investment Committee. The report may be made as a separate agenda item or as a portion of the Chief Investment Officer's Report at the next scheduled Investment Committee meeting.

B. Violations caused by the sale of assets on loan shall not be reported to the Investment Committee unless the following occurs:

1. The violation is not returned to compliance within five business days;  
or
2. The violation exceeds the limits specified for this scenario within the Policy.

## IX. GLOSSARY OF TERMS

**Asset-Backed Security** - Fixed income securities collateralized by assets that are not mortgage loans. These securities are commonly backed by automobile loans and credit card receivables.

**Collateral Pool (Cash Collateral)** - Cash Collateral provided by the borrower of a securities lending transaction. The collateral is then pooled and invested in short-term securities, earning an incremental return.

**Derivatives** - Securities that derive their value from an underlying instrument offering risk and return patterns that were previously either unavailable or too costly. The basic types of derivatives are options-type contracts and future-type contracts. Derivative securities may be used for hedging risk or speculative purposes.

**Floating Rate Notes (FRNs)** - Securities that have a coupon or interest rate adjusted whenever a pre-defined change in interest rate occurs. Typically, floating rate notes coupons are based on a short-term rate index.

**G7 Countries** - Japan, Germany, United Kingdom, France, Italy, Canada, and the United States.

**Initial Margin** - The amount of collateral that must be delivered relative to the market value of the security loaned.

**Inverse Floaters** - A floating rate note that is structured so that (positive) changes in interest rates results in inverse (or negative) changes in periodic cash flow payments. These instruments often involve significant leverage.

**Lending agents** - An agent hired by the sponsor for locating demand, negotiating premiums, and investing the cash collateral from securities lending on behalf of the sponsor.

**Maintenance Margin** - After a security is lent at an initial margin, the security loaned may increase in value such that the amount of collateralization shall fall below the initial margin. The maintenance margin is the minimum level of collateralization that shall be accepted before additional collateral is delivered.

**Money Market Fund** - Money market funds as defined under Securities Exchange Commission (SEC) Regulation 270.2a-7. The SEC regulation, which, as part of the Investment Company Act of 1940, defines the proper securities, maturity, and quality constraints required for portfolio classification as a money market fund.

**Moody's Investors Service** - An investment rating service that grades the investment quality of bonds in a nine-symbol system. The ranges extend from the

highest investment quality, which is Aaa, to the lowest credit rating, which is C. Securities rated Baa3 or greater are considered investment-grade. Securities rated Ba1 or below are considered to be speculative.

**Notes** - Intermediate-term, interest-bearing instruments issued by corporations, municipalities, or the federal government with maturities commonly ranging from five-to-twelve years.

**Prepayment Speed** - Payments exceeding the scheduled repayments of principal. Zero prepayment speed assumes that repayment of the principal is as scheduled.

**Principal Borrower** – A borrower with exclusive rights to borrow securities from a specified portfolio(s) for a specified length of time in return for a guaranteed fee. The principal borrower may or may not be responsible for investing the cash collateral from securities lending on behalf of the sponsor.

**Principal Investment Officer of Fixed Income** - The Principal Investment Officer responsible for all fixed income and reports to the Senior Investment Officer of Public Markets.

**Repurchase Agreements** - Sale of a security with a commitment from the seller to buy back the security from the purchaser at a specified price on a designated future date. A repurchase agreement is a collateralized loan where the collateral is a security.

**Sovereign Debt** - A country's government debt. In event of default, recourse for payment is made to the applicable sovereign government.

**Standard & Poor's (S&P)** - An investment rating service that grades the investment quality of bonds in a ten-symbol System. The ranges extend from the highest investment quality, which is AAA, to the lowest credit rating, which is D. Bonds rated BBB- or greater are considered investment-grade. Securities rated BB+ or below are considered speculative.

**Stranded Assets** - The electric utility industry in California underwent restructuring in January 1998, facilitating increased competition among providers. In the transition to a more competitive environment, electricity providers generated transition costs, commonly referred to as stranded costs. The California Public Utilities Code allows the electricity provider to recover these costs by charging existing, future residential, and small commercial customers. Stranded assets are fixed income securities collateralized by the receivables of electricity providers for recovering stranded costs.

**Structured Notes** - A security in which a series of embedded puts or calls or both makes the final total return dependent on changes in interest rates or some other index, such as foreign currency. The initial coupon is often higher than prevailing market rates, but it can change based on the impact of changing interest rates. These instruments are complex and often involve significant leverage.

**Supranational Entities** - Multinational organizations usually formed for providing financial assistance to less developed countries. Examples of Supranational entities include the World Bank and the International Monetary Fund (IMF).

**Unconditional Put Date** - The specific date before which a bond with a put option ("puttable bond") may, by its terms, be readily exercisable in the event of a default in payment of principal or interest on the underlying security.

**Variable Rate Note (VRNs)** - Securities having a coupon or interest rate adjusted periodically on a set date. Typically, variable rate notes have coupons based on a longer-term rate index and are reset once a year or longer.

**EXHIBIT A**

The following countries are approved for equity lending.

Australia	Singapore
Austria	Spain
Belgium	Sweden
Canada	Switzerland
Denmark	Thailand
Finland	United Kingdom
France	United States of
Germany	America
Hong Kong	
Italy	
Japan	
Luxembourg	
Mexico	
Netherlands	
New Zealand	
Norway	

**I. THE FOLLOWING COUNTRIES ARE APPROVED FOR  
FIXED INCOME LENDING.**

Australia	Spain
Austria	Sweden
Belgium	Switzerland
Canada	United Kingdom
Denmark	United States of
Finland	America
France	
Germany	
Ireland	
Italy	
Japan	
Luxembourg	
Netherlands	
New Zealand	
Norway	



## EXHIBIT B

**APPROVED BORROWER LIST**  
**as of October 29, 2001**

<b>BORROWER</b>	<b>MOODY's</b>	<b>S&amp;P</b>
ABN AMRO Bank NV	P-1	A1+
ABN AMRO Bank NV, New York	P-1	A1+
ABN AMRO, Inc.		
ABN AMRO Securities LLC		
Bank of America Corp	P-1	A1
Banc of America Securities LLC		
Nationsbanc Capital Markets, Inc.		
Nationsbanc of North Carolina, N.A.		
Nationsbanc of Texas, N.A.		
Bank of Montreal	P-1	A1+
BMO Nesbitt Burns Inc.		
Bank One Corp	P-1	A1
Banc One Capital Markets, Inc.		
Bank One, NA	P-1	A1
Barclays Capital, Inc	P-1	A1+
BZW		
Bear Stearns Companies Inc.	P-1	A1
Bear Stearns & Co		
Bear Stearns Securities Corporation		
Bear Stearns International		
Berliner Handels-Und Franfuter Bank	P-1	A1
BHF Securities Corporation		
BNP Paribas	P-1	A1
Banque Paribas		
Banque Paribas (London Branch)		
BNP Paribas Securities Corp.		
Caisse Nationale Credit Agricole	P-1	A1+
Credit Agricole Indosuez		
Credit Agricole Securities, Inc.		
Credit Agricole Indosuez (London Branch)		
Canadian Imperial Bank of Commerce	P-1	A1+
CIBC World Markets, Corp.	P-1	
JP Morgan Chase & Company	P-1	A1+
Chase Securities, Inc.		
Chemical Securities, Inc.		
Ord Minnett Securities Limited		
Robert Fleming		
JP Morgan & Company	P-1	A1+
JP Morgan Securities, Inc.		
JP Morgan Canada		

Morgan Guaranty Trust Company of N.Y.	P-1	A1+
Citigroup Inc.	P-1	A1
Citibank Canada		
Citicorp Securities, Inc.		
Salomon Smith Barney, Inc.	P-1	A1
Salomon Smith Barney Australia SBC Pty Ltd.		
Commerzbank	P-1	A1+
Credit Suisse Group	P-1	A1+
Swiss American Securities, Inc.		
Donaldson, Lufkin & Jenrette Securities Corporation		
Credit Suisse First Boston Inc.	P-1	A1+
Credit Suisse First Boston Corporation		
Deutsche Bank A.G.	P-1	A1+
Deutsche Bank A.G. (London Branch)		
Deutsche Bank Alex Brown Inc.		
Bankers Trust International PLC		
Dresdner Bank AG	P-1	A1+
Dresdner Kleinwort Wasserstein Securities LLC	P-1	A1+
First Union Corp	P-1	A1
First Union Securities, Inc.		
FleetBoston Financial Corp	P-1	A1
Fleet Securities		
Fortis (B)		A1
Fortis (NL) NV	Aa3	A1
Goldman Sachs Canada	P-1	A1+
Goldman Sachs Group Inc.	P-1	A1+
Goldman Sachs International PLC		
Spear, Leeds, & Kellog		
Goldman Sachs Group L.P.	P-1	A1+
Goldman, Sachs & Company		
Greenwich Capital Markets, Inc.	P-1	A1
HSBC Holdings PLC	P-1	A1
Credit Commercial De France	P-1	A1+
HSBC Securities, Inc.		
ING Groep NV	(Aa3)	A1+
ING Baring Securities		
Lehman Brothers Holdings Inc.	P-1	A1
Lehman Brothers, Inc.		
Lehman Brothers International		
Lehman Commercial Paper, Inc.		
MacQuarie Bank Limited	P-1	A1
Merrill Lynch & Co., Inc.	P-1	A1+
Herzog, Heine, Geduld, Inc.		
Merrill Lynch International Limited		
Merrill Lynch Canada		
Merrill Lynch Government Securities, Inc.		
Merrill Lynch, Pierce, Fenner & Smith, Inc.		

Midland Walwyn Capital Inc.		
Morgan Stanley Dean Witter & Company	P-1	A1+
Morgan Stanley & Company, Inc.		
MS Securities Services Inc.		
National Bank of Canada	P-1	A1
National Bank Financial Inc.		
NatWest Bank	P-1	A1+
NatWest Securities		
Prudential Insurance Co of America	P-1	A1
Prudential Securities, Inc.		
Rabobank	P-1	A1+
Royal Bank of Canada	P-1	A1+
RBC Dominion Securities, Inc.		
Schroders Plc		A1
Schroder & Company, Inc.	P-1	
Societe Generale	P-1	A1+
S G Cowen Securities Corporation		
Toronto-Dominion Bank	P-1	A1+
UBS AG	P-1	A1+
Paine Webber, Inc.		
UBS Warburg, LLC		
Warburg Dillon Read, LLC		

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\* Any Loans to a subsidiary who is either non rated or has a rating below A1/P1 and is not a bank subsidiary must be guaranteed by an approved rated parent entity.

\*\* Any borrower who undergoes a rating downgrade to below A1/P1 will immediately be removed from the approved borrower list. It is the responsibility of the agent to monitor borrower ratings.

\*\*\*Unless approved by Lender, any Loans to an approved borrower will be to a United States or otherwise to the home office of the approved borrower.

**EXHIBIT C**  
**APPROVED REPO BROKER LIST**

REPO BROKER	MOODY's	S&P
ABN AMRO Bank NV	P-1	A1+
ABN AMRO Bank NV, New York	P-1	A1+
Bank of America Corp	P-1	A1
Banc of America Securities LLC		
Bank One Corp	P-1	A1
Banc One Capital Markets, Inc.		
Bear Stearns Companies Inc.	P-1	A1
Bear Stearns & Companies Inc.		
Bear Stearns Securities Corporation		
Bear Stearns International		
Chase Manhattan Corp	P-1	A1+
Chase Securities, Inc.		
Citigroup Inc.	P-1	A1
Salomon Smith Barney, Inc.		
CS First Boston Corporation	P-1	A1+
Donaldson, Lufkin & Jenrette Securities Corp		
Deutsche Bank A.G.	P-1	A1+
Deutsche Bank Alex Brown Inc.		
First Union Corp	P-1	A1
First Union Securities, Inc.		
Goldman Sachs Group L.P.	P-1	A1+
Goldman, Sachs & Company		
JP Morgan & Company	P-1	A1+
JP Morgan Securities, Inc.		
Lehman Brothers Holdings Inc.	P-1	A1
Lehman Brothers, Inc.		
Lehman Commercial Paper, Inc.		
Merrill Lynch & Co., Inc.	P-1	A1+
Merrill Lynch Government Securities, Inc.		
Merrill Lynch, Pierce, Fenner & Smith, Inc.		
Morgan Stanley Dean Witter & Company	P-1	A1
Morgan Stanley & Company, Inc.		
Prudential Insurance Co of America	P-1	A1
Prudential Securities, Inc.		
Societe Generale	P-1	A1+
S G Cowen Securities Corporation		
UBS AG	P-1	A1+
Paine Webber, Inc.		
UBS Warburg, LLC		

\* Any repurchase agreement with a subsidiary who is either non rated or has a rating below A1/P1 must be guaranteed by an approved rated parent entity.

\*\* Any Repo Broker who undergoes a rating downgrade to below A1/P1 will immediately be removed from the repo broker list. It is the responsibility of the agent to monitor the ratings.